

Report Card

TEACHERS' FUND FOR RETIREMENT

JANUARY 2006

Pension Software Conversion Goes Live

We are very pleased to report that the CPAS pension software system went into live production on September 28, 2005. After many months of hard work, the project team successfully completed the conversion of data from the mainframe system to CPAS and finished user acceptance testing. This project milestone accomplishes Phase 1 under budget and on time.

Work on Phase 2 of this project is in process and will create a number of online web services for our members and employers. Look for more information about these services in the near future.



2005 Actuarial Results

Each year, TFFR's actuary, Gabriel, Roeder, Smith & Company (GRS) performs an actuarial valuation. In simple terms, an actuarial valuation is a mathematical means of determining if the contributions paid by members and employers, along with investment earnings, are adequate to pay the retirement benefits for current and future retirees. The annual valuation tracks changes over time and warns of possible future problems and issues. The 2005 report provides the following information:

Membership

As of July 1, 2005, the TFFR plan represented 16,932 active, inactive, and retired members. The average age of the 9,801 active members was 44.9 years; average service was 14.7 years; and average annual sal-

ary was \$39,447. There were 5,586 retirees and beneficiaries receiving average annual benefits of \$15,710. There were also 1,377 inactive, vested members and 168 inactive, nonvested members.

Continued on back page

TFFR Board of Trustees

Mark Sanford, *President*

Barb Evanson	Mike Gessner
Lowell Latimer	Clarence Corneil
Kelly Schmidt	Wayne Sanstead

RIO Administrative Office

Steve Cochran, *Executive Director/CIO*
Fay Kopp, *Deputy Director/Retirement Officer*
Shelly Schumacher, *Editor*

ND Retirement and Investment Office

1930 Burnt Boat Drive, P.O. Box 7100
Bismarck, ND 58507-7100
701-328-9885, Toll free: 1-800-952-2970
www.nd.gov/rio

Articles are for general information only and are not intended to provide specific advice or recommendation. Other forms of this newsletter are available on request.



The TFFR Board is committed to ensuring the financial stability of your retirement fund.

TFFR Board members, from left: Lowell Latimer, Mike Gessner, Barb Evanson, Clarence Corneil, State Treasurer Kelly Schmidt, Mark Sanford. (Not pictured: State Superintendent Wayne Sanstead.)

Tomorrow's Forecast

Sunny? Cloudy? Chance of rain?
Maybe snow?

Predicting the weather is no easy task. In fact, forecasting future conditions is a tough job in any environment.

In a retirement program like TFFR, we also make predictions. And, as you can imagine, the farther we go out into the future, the more difficult it becomes. While we don't have Doppler radar systems and satellite imagery, pension plan trustees, staff, and consultants make use of other tools like annual actuarial valuations, projection models, experience studies, and asset liability studies. These studies help the TFFR Board analyze what's happened in the past, measure where we are today, and anticipate where we will be in the future. All of this, of course, is based on assumptions of future investment returns, salary increases, how soon teachers will retire, how long they will live, and other important events.

Recent studies show ever changing weather patterns for TFFR:

Past – mostly sunny, high in the 90s, followed by severe thunderstorms in 2001-2003

- After a number of years of outstanding investment returns, TFFR experienced three years of returns that fell well below the expected 8%. Returns have averaged just 3% over the last five years.
- Experience study assumption changes due to higher salaries earned, members retiring earlier, and fewer terminating before retirement.
- Benefit improvements for active and retired members.



Fay Kopp
Deputy Executive Director

Present – fair, partly cloudy

- Two years of investment returns greater than 8% assumed rate.
- Market value of assets is \$1.5 billion.
- Funded ratio of about 75%.
- Negative contribution margin of -4.37%.

Future – mostly cloudy

- If investment returns are greater than 8% assumed rate over a long period of time, TFFR's

funding condition could slowly improve. (Unfortunately, recent studies show this condition, while possible, is unlikely.)

- If investment returns average 8% (or less) over a long period of time, TFFR's funding condition would gradually decline, in the absence of modifications to contribution rates or benefit changes for new hires.
- Continued trend of early retirements and longer life expectancy.
- Declining number of active teachers contributing into the plan.

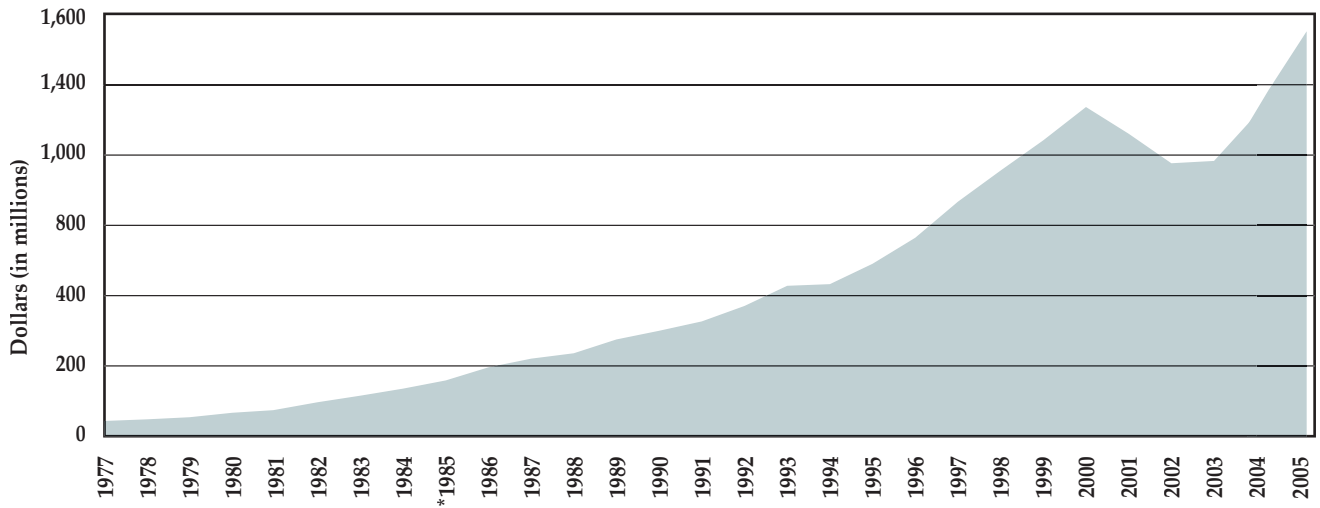
The financial market volatility of the last few years has served to reinforce the importance of trying to anticipate the future as much as possible. But like the weather, there are sure to be some unexpected events over any extended time period. Please be assured that the TFFR Board is carefully monitoring the situation.

As always, I welcome your questions and comments about the TFFR program.

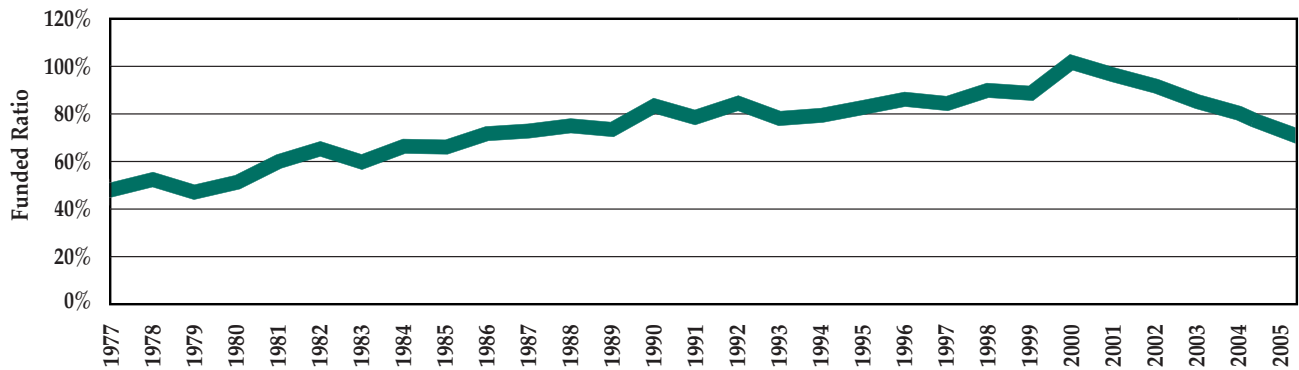


2005 ANNUAL REPORT SUMMARY

Market Value of TFFR Assets

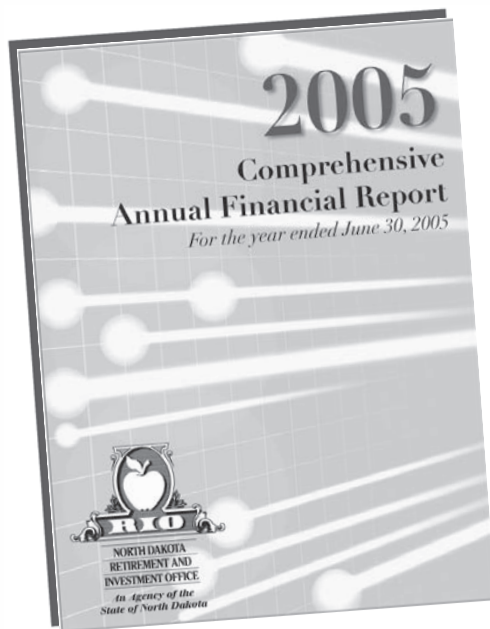


TFFR Funded Ratio



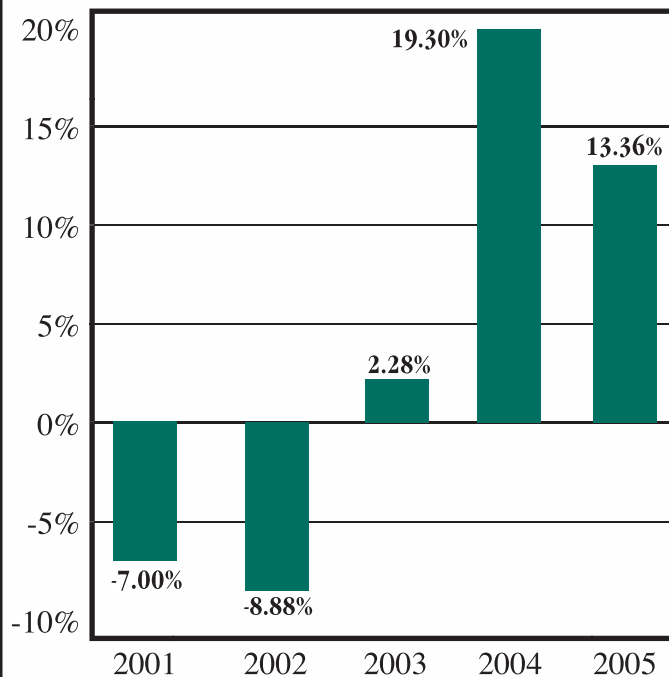
Active Members vs. Retired Members





Every year, NDRIO publishes its annual Comprehensive Annual Financial Report (CAFR). This report provides a detailed look at investment, financial, actuarial, and statistical information. The report has received the Certificate of Achievement for Excellence in Financial Reporting. We have included a number of charts and graphs from this year's CAFR which covers July 1, 2004 – June 30, 2005. The complete report is posted on the NDRIO website at www.nd.gov/rio. In addition, copies of the report may be requested by calling toll-free at 1-800-952-2970.

TFFR INVESTMENT PERFORMANCE SUMMARY



TFFR Financial Statements

STATEMENT OF ASSETS AS OF JUNE 30, 2005

ASSETS

Equities	\$1,004,754,159
Fixed Income	272,428,219
Real Estate	139,039,070
Private Equity	62,572,727
Invested Cash	28,950,655
Invested Securities Lending	104,685,772
Receivables	15,513,447
Other Assets	8,668,176
Total Assets	\$1,636,612,225

LIABILITIES

Accounts Payable	\$1,414,912
Accrued Expenses	284,129
Securities Lending	104,685,772
Other Liabilities	32,985
Total Liabilities	106,417,798

Net Assets on June 30, 2005 **\$1,530,194,427**

CHANGES IN ASSETS DURING FISCAL YEAR 2005

CASH POSITION

Net Assets on June 30, 2004 **\$1,374,679,677**

ADDITIONS

Member Contributions	\$30,388,650
Employer Contributions	30,388,265
Other Additions	3,295,966
Investment Income	180,760,255
Total Additions	\$244,833,136

DEDUCTIONS

Benefits Paid	\$84,498,130
Refunds	2,733,407
Administrative Expenses	2,086,849
Total Deductions	\$89,318,386

Net Increase **155,514,750**

Net Assets on June 30, 2005 **\$1,530,194,427**



Credit Card Balance Greater Than Retirement Savings??

What does your financial future hold for you? Are you a young person just entering the workforce? At the midpoint in your career? Approaching retirement? Whatever your situation, it makes good sense to periodically review your spending habits and do some financial planning.

Planning is vital. A careless approach to family finances makes life more difficult. We have all learned many things but many of us were never taught how to manage money. A staggering number of families could not handle an unexpected expense. Many of these families are in debt because they don't control impulse purchases with credit cards. A sound financial plan is needed to insure a comfortable living for you and your family and to safeguard against unexpected events.

Two keys to financial planning are to control your expenditures by developing a budget and to set up a savings investment plan that is consistent and diversified.

Financial planning services and information are available from a wide range of sources. Check out websites, your local library, or meet with a financial planning professional you trust. Take action and you will find that your reward of financial peace of mind is worth the time.

Outreach Schedule

There is still time to register for the 2005-06 pre-retirement seminars. The six hour seminar covers TFFR benefits, financial planning, estate planning, Social Security benefits, and health insurance. The two-day seminar is held from 4-7 p.m. each day. To register, call:

1-800-952-2970 or 328-9886.

Wahpeton
Pre-Retirement Seminar
February 1-2, 2006

Williston
Pre-Retirement Seminar
February 8-9, 2006

Happy New Year
from all of us at the
North Dakota Retirement
& Investment Office!

2005 Actuarial Results *Continued*

While active membership is slowly declining, the number of retired members has grown an average of 2.3% per year over the last 10 years. Currently, there are 1.8 active members for each retiree (down from 2.2 ten years ago), and the ratio of active to retired members continues to decrease.

Actuarial Results

According to the 2005 actuarial report, the member and employer contribution rate of 7.75% each is not sufficient to fund TFFR benefits and to amortize TFFR's unfunded actuarial accrued liability (UAAL) over the 30-year period set by the Board. The shortfall (the negative margin) between the rate mandated by law and the rate necessary to fund the UAAL in 30 years is -4.37%. The increase was due principally to two factors: (1) the recognition of another 20% of the actuarial investment losses from FY 2001, FY 2002, and FY 2003 (offset by 20% of the actuarial investment gains from FY 2004 and FY 2005); and (2) the changes made to the actuarial assumptions,

offset by the effect of the changes in the amortization procedures resulting from the Experience Study. The increase would have been even larger if not for the 13.3% market asset return in FY 2005.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) is 74.8% as of July 1, 2005, a decrease from 80.3% last year. Based on market values rather than actuarial values of assets, the funded ratio improved to 77.9% from 76.4% last year.

TFFR Board

The TFFR Board, RIO staff, and consultants are closely monitoring TFFR's investment performance and funding situation. We are analyzing projections of the impact on TFFR of various investment returns, contribution rate increases, and benefit changes for new hires. Legislative proposals are being considered to improve TFFR's funding situation.

PRESORTED
STANDARD
U.S. POSTAGE
PAID
PERMIT NO. 325
BISMARCK, ND
58501

NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE
Teachers' Fund for Retirement
State Investment Board
1930 BURRNT BOAT DRIVE
P.O. BOX 7100
BISMARCK, ND 58507-7100

